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BEFORE THE ARIZONA CORPORATION COMMISSION



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TOM FORESE, Chairman
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ANDY TOBIN
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Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY FOR
A HEARING TO DETERMINE THE FAIR
VALUE OF THE UTILITY PROPERTY OF APS
FOR RATEMAKING PURPOSES, TO FIX A
JUST AND REASONABLE RATE OF RETURN
THEREON, TO APPROVE RATE SCHEDULES
DESIGNED TO DEVELOP SUCH RETURN.

DOCKET NO. E-01345A-16-0036

IN THE MATTER OF FUEL AND PURCHASED
POWER PROCUREMENT AUDITS FOR
ARIZONA PUBLIC SERVICE COMPANY.

DOCKET NO. E-01345A-16-0123

NOTICE OF FILING

1 The Arizona Utility Ratepayer Alliance, ("AURA") hereby files the testimony of Patrick
2 J. Quinn in Support of Settlement Agreement

3 **Respectfully submitted** on March 31, 2017, by:

4 *Craig A. Marks*
5
6

7 Craig A. Marks
8 Craig A. Marks, PLC
9 10645 N. Tatum Blvd.
10 Suite 200-676
11 Phoenix, AZ 85028
12 (480) 367-1956
13 Craig.Marks@azbar.org
14 Attorney for Arizona Utility Ratepayer Alliance
15

16 **Original** and 13 copies **filed**
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22 Phoenix, Arizona 85007
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ARIZONA UTILITY RATEPAYER ALLIANCE

**DIRECT TESTIMONY
OF
PATRICK J. QUINN
IN SUPPORT OF SETTLEMENT AGREEMENT**

MARCH 31, 2017

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1 **EXECUTIVE SUMMARY**

2 The Arizona Utility Ratepayer Alliance (“AURA”) presents the direct testimony of Managing
3 Partner Patrick J Quinn in support of the Proposed Settlement Agreement concerning Arizona
4 Public Service Company’s request for a permanent rate increase. Mr. Quinn recommends that
5 the Arizona Corporation Commission approve the Settlement Agreement for the following
6 reasons.

7 The Agreement reflects an outcome that is fair to both the residential consumer and APS and is
8 in the public interest.

9 The Agreement is a comprehensive settlement agreement. Its terms settle a wide range of issues
10 that were of significant interest to most of the nearly 40 intervenors.

11 AURA supports the Agreement in its entirety even though AURA only presented testimony on
12 the residential rate design. The Agreement contains a reasonable residential rate design and
13 other benefits to the residential ratepayer.

14 The Agreement addresses and resolves three major concerns of AURA. There are no longer any
15 mandatory three-part charges for any residential ratepayer. The originally proposed increases in
16 most basic service charges were greatly reduced. Finally, there are now many rate-design
17 options for residential customers.

I INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE NUMBER.

A. My name is Patrick J Quinn. My business address is 5521 E. Cholla St. Scottsdale, AZ 85254, and my phone number is 602 579-1934.

Q. ARE YOU THE SAME PATRICK J. QUINN WHO PREVIOUSLY SUBMITTED TESTIMONY IN THESE DOCKETS?

A. Yes.

II PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I explain AURA's support of the Settlement Agreement filed in these dockets on March 27, 2017.

III ADDITIONAL QUALIFICATIONS

Q. HAVE YOU PARTICIPATED IN OTHER SETTLEMENT AGREEMENTS?

A. Yes. I have participated in settlement negotiations in other matters that have come before the Commission both from the utility and the residential consumer side. The majority of these negotiations have resulted in reaching an accord with the utility and the other settling parties, leading to the signing and supporting of a settlement agreement. On the other hand, I have walked away from settlement talks when negotiations produced a result I could not support. I was involved in three negotiations when I was director of the Arizona Residential Utility Consumer Office (RUCO). Two resulted in settlements, but RUCO concluded that the third proposed settlement was not in the best interest of residential ratepayers so we did not settle.

1 AURA would not agree to settle simply a case as a means of avoiding litigation. Our
2 testimony was persuasive and we believe that the Commission would have sided with us
3 on most of our issues. However, the results of continuing litigation are always uncertain.
4 Negotiations did produce reasonable and fair terms that satisfied virtually all of AURA's
5 concerns, so AURA does support the Settlement Agreement.

6 **IV THE SETTLEMENT PROCESS WAS FAIR AND PROPER**

7 **Q. WAS THE NEGOTIATION PROCESS THAT RESULTED IN THE**
8 **AGREEMENT FAIR AND PROPER?**

9 A. Yes. The Settlement Agreement is the result of numerous hours of negotiation and a
10 willingness among the parties to compromise. The negotiations were conducted in a fair
11 and reasonable way that allowed each party the opportunity to participate. All
12 intervenors had an opportunity to participate in every step of the negotiation. Notice for
13 each scheduled meeting was sent to all parties electronically. Persons were able to
14 participate via teleconference, if necessary. All documents submitted as part of
15 settlement negotiations were made available to all parties in the settlement discussions.
16 All parties were allowed to express their positions fully.

17 Approximately 40 parties participated in the settlement discussions. These parties
18 represented a wide range of interests from community groups, low income advocates,
19 general businesses, governmental entities, other electric utilities, unions, solar advocacy
20 groups, Commission Staff, RUCO, and AURA.

21 **Q. DID ALL THE PARTIES SIGN THE SETTLEMENT AGREEMENT?**

22 A. No. At the very end, a few of the parties chose not to sign the Agreement. These parties
23 have the opportunity to file testimony to explain why they did not sign the Agreement.

Q. WHY IS A NEGOTIATED SETTLEMENT PROCESS AN APPROPRIATE WAY TO RESOLVE THIS MATTER?

A. By its very nature, a settlement finds middle ground that parties can support. The parties that participated in the settlement talks were generally sophisticated parties who were well seasoned in the Commission's regulatory processes and veterans of the negotiating table. The fact that so many parties representing such varied interests were able to come together to reach consensus illustrates the balance, moderation, and compromise of the document. One significant example is that APS and the solar industry, parties that have had significant differences in previous cases, did through this process reach an agreement. Settlement negotiations began only after each party had the opportunity to analyze APS's Application, prepare and file direct testimony, and then review and analyze testimony filed by the other parties.

V THE SETTLEMENT AGREEMENT SATISFIES AURA'S MAJOR CONCERNS

Q. WHAT WERE AURA'S MAJOR CONCERNS THAT NEEDED TO BE RESOLVED BEFORE AURA COULD SUPPORT A SETTLEMENT AGREEMENT?

A. There were three areas of importance that needed to be resolved in the Agreement before AURA could become a signatory:

- There could be no mandatory three-part rate design for any residential ratepayer;
- There could be only minimum increases in residential basic service charges; and
- There should be a variety of rate design choices for residential ratepayers.

All of these concerns were addressed satisfactorily in the Agreement.

1 **Q. HOW DOES THE SETTLEMENT AGREEMENT SATISFY AURA'S**
2 **CONCERNS?**

3 A. There are three major agreements that AURA is proud to have reached.
4 • There are no mandatory three-part charges for any residential ratepayer;
5 • The proposed increases in most basic service charges were greatly reduced; and
6 • There are now many rate-design options for residential customers.

7 **Q. WHAT ARE THE BENEFITS OF NO MANDATORY THREE-PART CHARGES?**

8 A. In my testimony and that of Scott Rubin, AURA defined and discussed the problems with
9 mandatory three-part rate designs for residential customers. Residential customers have
10 traditionally been billed using a two-part rate design with a flat basic service charge and
11 usage charge based on actual monthly usage. Three-part rate design adds another
12 element: peak demand charges.

13 Peak demand charges are calculated by taking the maximum one hour of usage by a
14 customer during a specific time of the month multiplied by a demand rate. To determine
15 demand charges for a month, a utility multiplies the hourly usage times by the demand
16 charge. So for that one hour of peak usage during the month, (assuming 10 kWh of usage
17 during that hour and an \$18 demand charge) a customer would pay a \$180 demand
18 charge plus the basic service and usage charges for the rest of the month.

19 For the average customer to manage their peak demand charge requires significant time
20 and money for equipment to minimize their bill. In the Settlement Agreement there is no
21 mandatory three-part rate design. Three-part rates are now one of many rate-design
22 options a residential customer can select.

1 **Q. IS AURA SATISFIED WITH THE BASIC SERVICE CHARGES IN THE**
2 **AGREEMENT?**

3 A. Yes. Originally APS had asked for a significant increase in basic service charges. APS
4 had proposed increasing the service charge for customers using less than 600kW a month
5 from \$8 to \$18. The Settlement Agreement has reduced the basic service charge for these
6 customers to only \$10, a significant benefit.

7 Some service charges in the Agreement actually decrease from current rates. For
8 example TOU and three-part rate designs will be \$13, reduced from the current rates of
9 between \$14.50 and \$17, another significant benefit. Rates for customers using more
10 than 600 kWh were proposed to increase to \$30 from current rates of \$8. The rate is
11 now set at \$15 for customers using between 600 kWh and 1000 kWh and at \$20 for
12 customers above 1000 kWh.

13 All this is much better than APS's initial proposal. As in every settlement, no everything
14 is exactly what you wanted. However, the modest increases to the basic service charge
15 for customers under 600 kWh/month, and actual reductions to service charges for TOU
16 and three-part-rate customers, more than offset the larger (though lower than initially
17 proposed) increases for customers using more than 600 kWh/month.

18 **Q. DOES THE SETTLEMENT AGREEMENT SATISFY AURA'S DESIRE FOR A**
19 **VARIETY OF RESIDENTIAL CUSTOMER RATE-DESIGN CHOICES?**

20 A. Yes. One of AURA's concerns with APS's original request was that there was very little
21 residential customer choice and some of the low-cost options were going away. However
22 the Settlement Agreement now provides sufficient choices for residential customers.

1 **Q. WHAT ARE SOME OF THOSE OPTIONS?**

2 A. There are several significant options:

- 3 • For customers using less than 600kWh/month, Rate R-XS remains available to
- 4 existing customers and for qualifying new customers until at least the next rate case.
- 5 • Existing customers using between 600kWh/month and 1000kWh/month will qualify
- 6 for the new Rate R-Basic rate until the next rate case. New customers may select this
- 7 rate until May of 2018. A new customer qualifying after May of 2018 must go on a
- 8 TOU or some other rate design for 90 days, but can then choose to go to R-Basic.
- 9 • There is also an R-Large rate that current customers can stay on until the next rate
- 10 case. New customers must choose another rate.

11 **VI THE SETTLEMENT AGREEMENT IS IN THE PUBLIC INTEREST**

12 **Q. IS THE SETTLEMENT AGREEMENT IN THE PUBLIC INTEREST?**

13 A. Yes. AURA believes that the Agreement satisfies the public interest. There are no

14 mandatory three-part charges for any residential ratepayer. The originally proposed

15 increases in most basic service charges were greatly reduced. Finally, there are now

16 many more rate-design options for residential customers.

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 A. Yes